2006
ANNUAL
REPORT

Grand Banks
Energy Corporation

PROFILE

Grand Banks Energy Corporation is a Calgary based public resource company actively engaged in the exploration, development and production of crude oil and natural gas in Western Canada. We are growing our Corporation by building a solid production inventory with the drill bit based on a two-fold strategy: to drill relatively shallow light oil development prospects in the Williston Basin area of southeastern Saskatchewan/southwestern Manitoba that will provide solid, predictable production and reserves growth and to drill select high impact exploration prospects targeting deep gas in west central Alberta and northeastern British Columbia that will provide the opportunity for high rewards.

Common shares of Grand Banks Energy Corporation trade on the TSX Venture Exchange under the symbol GBE.

ANNUAL MEETING

The Annual Meeting of Shareholders of Grand Banks Energy Corporation will be held on Tuesday, June 5, 2007 at 10:30 a.m. (Calgary time) in the Cardium Room of the Calgary Petroleum Club located at 319 Fifth Avenue S.W., Calgary, Alberta. All shareholders are cordially invited and encouraged to attend.

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HIGHLIGHTS

Years Ended December 31,	2006	2005	Change	2004
(000s, except per share amounts)	($)	($)	(%)	($)
Financial Results				
Gross revenues	**17,504**	17,377	1	2,590
Net (loss) before income taxes	**(679)**	(2,160)	69	(1,260)
Net income (loss)	**627**	930	(33)	999
Per share – basic	**0.02**	0.03	(33)	0.05
Per share – diluted	**0.02**	0.03	(33)	0.05
Funds flow from operations [1]	**9,706**	9,066	7	652
Per share – basic	**0.32**	0.34	(6)	0.03
Per share – diluted	**0.31**	0.32	(3)	0.03
Additions to property and equipment, net of proceeds	**25,956**	22,255	17	13,101
Total assets	**52,251**	42,336	23	24,647
Working capital	**(10,562)**	1,777	(694)	3,802
Asset retirement obligation	**961**	894	7	341
Flow-through share obligations	**3,855**	6,740	(43)	5,000
(000s)	(#)	(#)	(%)	(#)
Share Data				
Weighted average shares outstanding				
Basic	**30,173**	26,821	12	18,801
Diluted	**30,979**	28,489	9	19,075
Equity outstanding				
Common shares	**31,915**	29,750	7	23,272
Stock options	**2,854**	2,310	24	1,730
Warrants	**–**	–	–	2,344
Sales Volumes				
Crude oil and liquids (bbls/d)	**592**	258	129	68
Natural gas (mcf/d)	**1,556**	3,834	(59)	457
Royalty income (boe/d)	**1**	2	(50)	8
Average boe/d (6:1)	**852**	898	(5)	152
	($)	($)	(%)	($)
Product Prices				
Crude oil and liquids ($/bbl)	**63.07**	56.63	11	47.17
Natural gas ($/mcf)	**6.70**	8.50	(21)	6.70
	($/boe)	($/boe)	(%)	($/boe)
Netback Analysis				
Oil and gas revenue (6:1)	**56.11**	52.61	7	43.31
Royalty expense	**10.71**	14.35	(25)	7.83
Operating costs	**8.89**	6.18	44	8.94
Netback	**36.51**	32.08	14	26.54

(1) Funds flow from operations is a non-GAAP measure that represents net income plus depletion, depreciation and amortization, stock-based compensation, future taxes and other non-cash expenses. See further discussion under Non-GAAP Measures in the Management's Discussion and Analysis.

LETTER TO SHAREHOLDERS

OUR DRILLING SUCCESS IN 2006 WAS HIGHLIGHTED BY A MAJOR LEDUC REEF GAS DISCOVERY AT TOWER CREEK (HARLEY) THAT, ALONG WITH MEASURABLE PROGRESS IN OUR LIGHT OIL FOCUS AREA, HAS PROVIDED AN EXCELLENT BASE FROM WHICH TO ACCELERATE OUR GROWTH.

2006 was another year of growth and measurable progress for Grand Banks Energy Corporation. We continued to build a solid foundation of reserves and production with the drill bit, which was highlighted by the successful drilling of a 4,900-metre exploration well at Tower Creek (Harley) located in west central Alberta. As operator, we drilled and completed the significant Leduc sour gas discovery at 2-21-55-27 W5M (16.67% working interest), which, along with drilling success in our light oil focus area, has given us our best year ever in terms of reserves and value per share increases and has positioned us for strong production growth going forward.

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Operational Highlights

■ During 2006, we drilled 28 gross (15.6 net) wells for an average 90% success rate. Average production was 852 boe/d, which was slightly below the 898 boe/d we posted a year ago. Having said that, we ended 2006 in a much stronger position as we essentially doubled our proved reserves while replacing our production 4.2 times. The reserve life index of the Corporation as at December 31, 2006, on a boe basis, was 6.9 years proved and 12.2 years proved plus probable compared to 4.2 years and 6.4 years, respectively, at the end of 2005. This increase in reserves came almost entirely from the drill bit and was achieved at a finding, development and acquisition cost of $25.64/boe proved or $15.56/boe proved plus probable. Moreover, almost all of our reserves consist of relatively high priced light oil and natural gas, resulting in an operating netback of $36.51/boe and a positive recycle ratio (including future development costs) of 1.42 proved or 2.35 proved plus probable.

Significant increases in our production levels will begin to reflect these reserves additions once we tie-in our Tower Creek gas discovery. During the second quarter of 2007, this well is expected to come on-stream at gross rates of about 20 mmcf/d, and as a result, corporate production is anticipated to increase to approximately 1,100 boe/d. Grand Banks, as operator, plans to spud a second exploration well at Tower Creek by July 2007, and if successful, expects to have the new well tested, tied-in and on-stream by the beginning of 2008.

We have also targeted a number of drilling locations for high value light oil in our Williston Basin focus area. During 2007, we intend to drill approximately 10 gross (9.5 net) oil wells in this area. At Sinclair, we have identified three promising "sweet spots" on our land base. The information and knowledge that we have gained from two years of exploration, as well as our refinements in the drilling and completion of oil wells on this play, have resulted in dramatic productivity increases. Consequently, we intend to allocate a substantial part of our 2007 budget developing these areas. We also have plans to drill at least one well in our Kingsford prospect area.

We recently put our Stoughton/Viewfield property, located in southeastern Saskatchewan, up for sale. This property, which was developed in 2006 by drilling four oil wells on the large-scale farm-in area, currently produces approximately 40 bbls/d net to Grand Banks and most of the lands associated with the sale lie within the heart of the emerging Bakken light oil resource play. This resource play is being developed by several larger companies in the area.

Edward C. McFeely, President & Chief Executive Officer

Financial Highlights

■ Gross revenues totaled $17.5 million in 2006, a modest increase over 2005. Year-over-year net income fell to $0.6 million or $0.02 per share due primarily to lower future income tax recoveries. Funds flow from operations improved slightly to $9.7 million or $0.31 per share as a result of a 14% increase in our netback to $36.51/boe, which was high by industry standards and a reflection of the quality of our light oil and the effect of royalty holidays. During 2006, the Corporation raised $4.2 million before commissions by way of a flow-through share financing at a price of $2.10 per share. These proceeds, together with cash flow and debt, were used to fund our 2006 drilling program. Since November 2003, we have raised approximately $32.2 million in equity, of which over 80% has come by way of flow-through shares. Grand Banks is an ideal vehicle for this type of financing because we possess over $52.0 million in tax pools and can, therefore, replace pools that have been renounced to our investors. We expect both revenue and funds from operations to increase substantially in 2007 as we tie-in our Tower Creek gas discovery and further develop our light oil properties. Our capital budget for 2007 is expected to be funded primarily from cash flow and the proceeds of our minor property divestiture.

Growth Strategy

■ We will continue to grow our Corporation through lower risk development and exploitation drilling that is supplemented by a prudent mix of high impact exploration. We use cash flow from our successful discoveries to acquire additional lands, escalate development and fund our drilling programs. In order to help mitigate the effects of commodity price swings, we will continue to develop both light oil and natural gas production. We expect the ratio of our production of oil and gas to be approximately 50/50 once our Tower Creek well commences production. We will continue to pursue and evaluate acquisition opportunities that are complementary to our operations and that provide sufficient upside potential for meaningful per share value gains.

Outlook

■ Grand Banks has all the components in place for both rapid growth in the short-term and sustained growth for the long-term, and given the current economic and industry climate, we see excellent potential for opportunities to further accelerate this growth. The current capital constrained environment is resulting in an increase in the supply of good quality acquisition and farm-in opportunities as other companies look for partners to drill wells on their lands, and the terms of these deals are also improving. In addition, we are seeing signs that the inflated service costs that were associated with the unusually high activity levels during the past two years are beginning to moderate, and as a result, the potential now exists to increase our capital efficiency (we can get more barrels flowing for less money). Commodity prices are still very good by historical standards, thereby providing for improved revenues with production growth.

Our substantial production base, our inventory of land and drilling opportunities, our record of prudent financial management, our ability to effectively drill and operate both deep sour gas wells and horizontal oil wells, and our energized and experienced team of oil and gas professionals give us the critical components that investors typically seek. The irony of the current industry climate is that while capital is more difficult to access, the business conditions are shaping up to be the best that we have seen in many years. We intend to undertake a number of initiatives to help position Grand Banks to access capital on terms that are attractive to our shareholders, including expanding the scope of our promotional activities in order to spread the Grand Banks story to new, prospective investors and financial institutions.

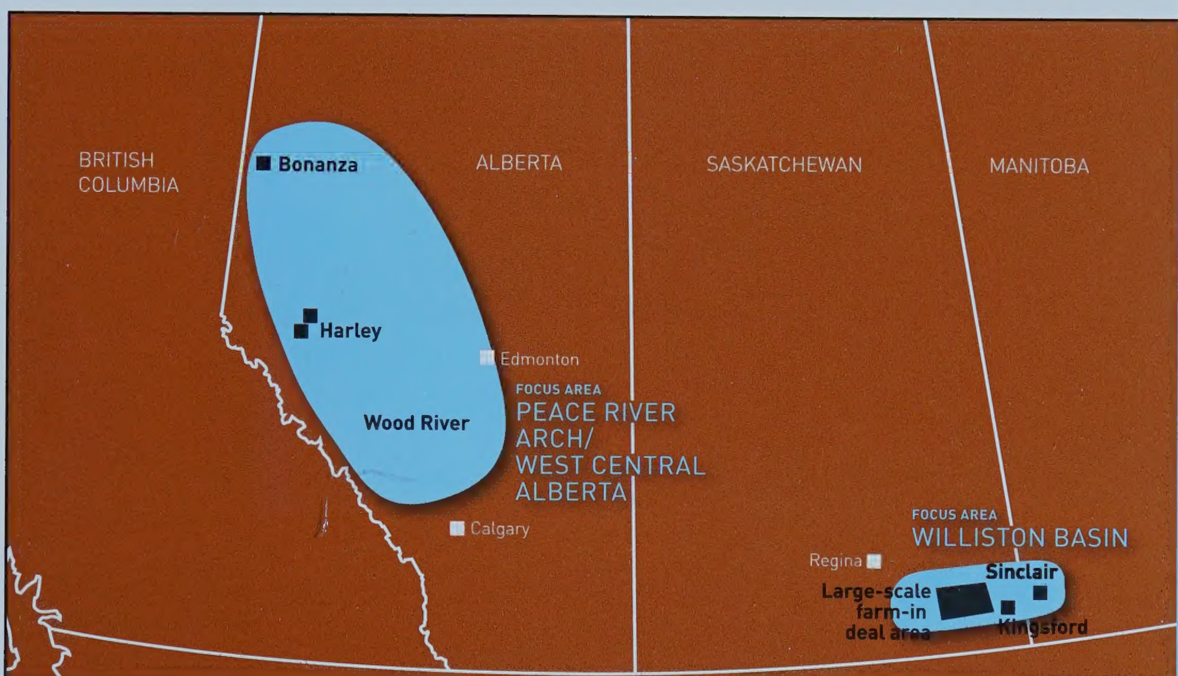
2006 was unquestionably the best year in our Corporation's history, and as a result, we are excited about our future. The sustained and diligent efforts of our dedicated and capable staff and Board of Directors are bearing fruit. We have qualified our Corporation as a prudently managed energy business that is able to create profitable growth with the drill bit. Our goal is to grow our production to the 4,000 to 5,000 bbls/d range within the next three to four years and, as always, to continue to increase the value of each share of Grand Banks Energy Corporation. We thank every investor for their interest and confidence in Grand Banks and we look forward to reporting the results of our efforts as we continue in our mission to accomplish our goals.

On behalf of the Board of Directors,

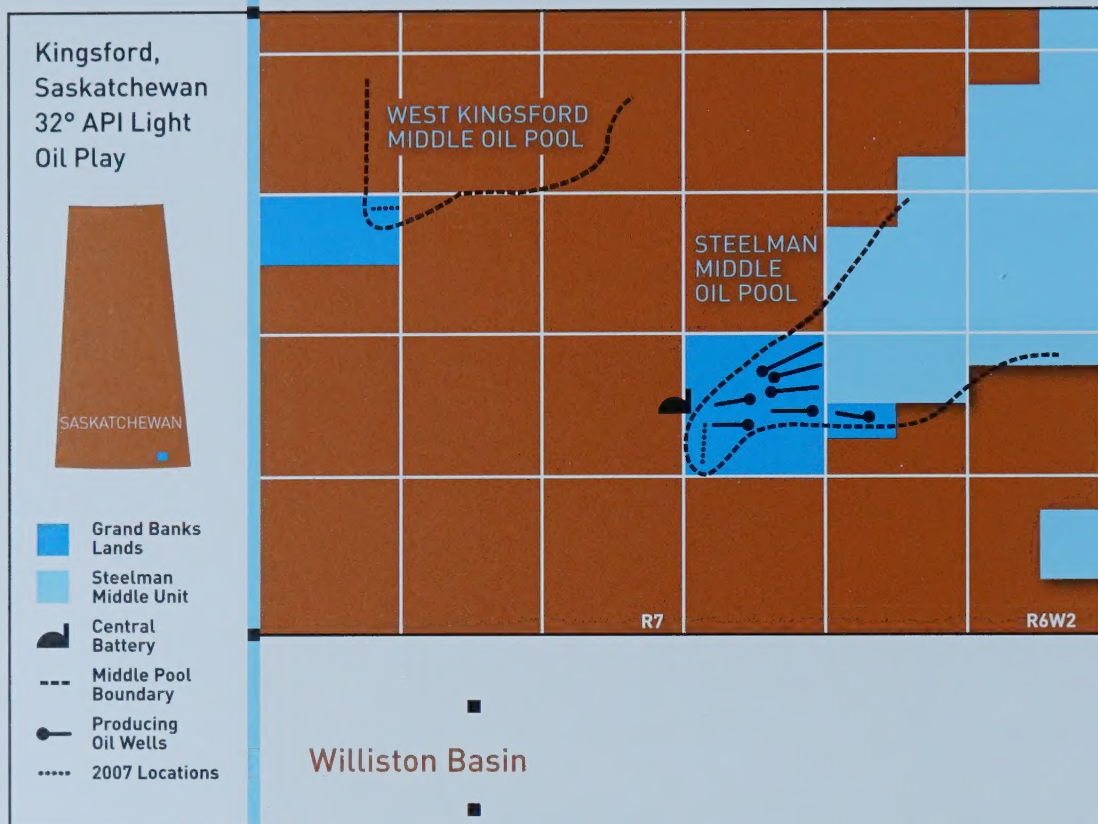
Edward C. McFeely
President & Chief Executive Officer
April 16, 2007

OPERATIONS REVIEW

DURING 2006, GRAND BANKS ACHIEVED RECORD RESERVES ADDITIONS THAT GREATLY INCREASED OUR RESERVE LIFE. AS THESE RESERVES ARE TIED-IN AND DEVELOPED OVER THE COURSE OF THE COMING YEAR, WE EXPECT OUR PRODUCTION RATE TO INCREASE SUBSTANTIALLY.



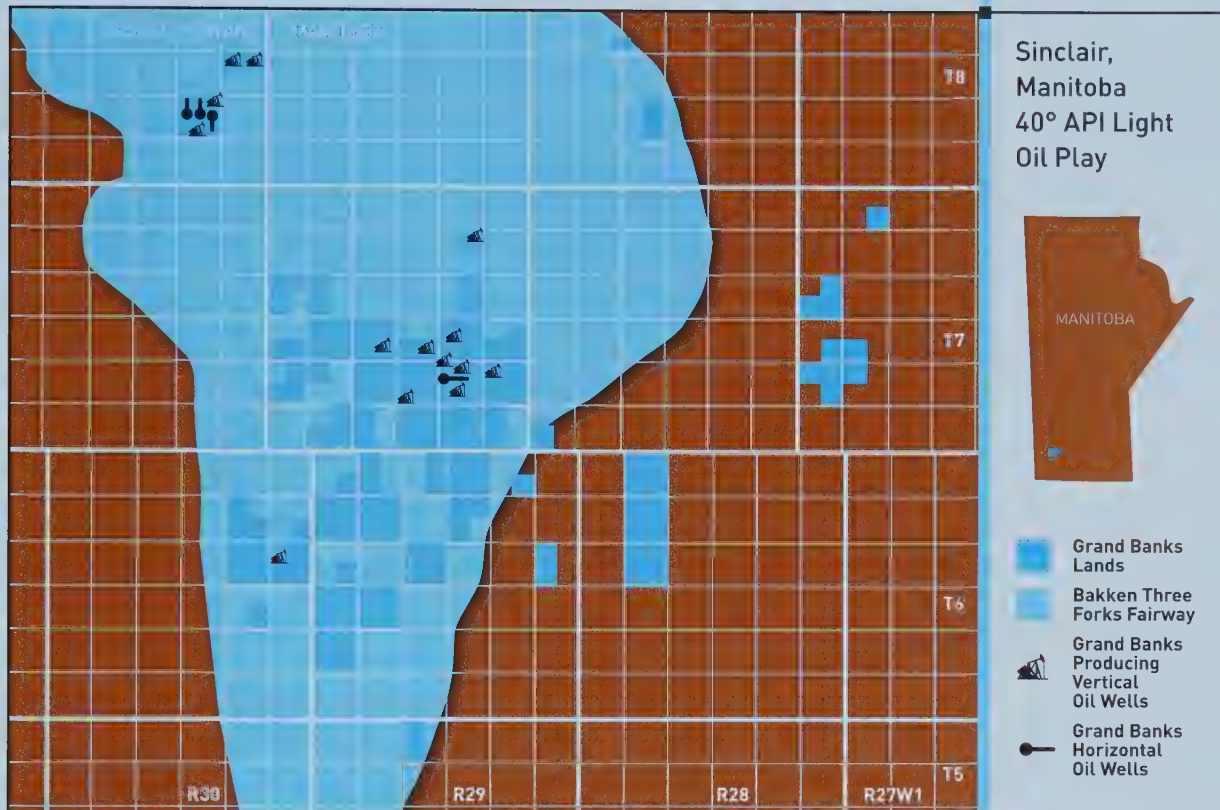
Grand Banks focuses its efforts in two key operating areas: The Peace River Arch/West Central Alberta area, which is primarily a natural gas exploration region, and the Williston Basin area in southeastern Saskatchewan/southwestern Manitoba, a rich oil prone region.



Williston Basin

Kingsford, Saskatchewan

The Kingsford property is located in southeastern Saskatchewan in the Williston Basin geological region. The area is characterized by high deliverability oil wells with moderate declines and high netbacks. Our property produces approximately 250 net bbls/d of 32° API oil from the Steelman Midale pool. Grand Banks currently operates, with a 74% average working interest, 6 gross (4.8 net) horizontal wells and 1 gross (0.4 net) vertical well. We also operate a central battery and water disposal facility (73% working interest) where the oil from our wells is gathered and treated and then shipped via pipeline to sales. During 2006, we upgraded these facilities such that they now have over 1,000 bbls/d of spare capacity to handle additional fluid volumes. As well, we acquired approximately 320 net acres of additional lands in the area and have plans to drill at least one development well on the property in 2007.



Sinclair, Manitoba

The Sinclair Three Forks/Torquay Upper Devonian light oil pool covers over 80 sections of land in southwestern Manitoba and just across the border into southeastern Saskatchewan. Industry activity continued to be robust on this play during 2006 with over 400 wells licenced and 375 wells drilled targeting this very high quality 40o API sweet crude oil.

During 2006, Grand Banks drilled 8 gross (5.9 net) vertical stepout and exploratory wells to better delineate the reservoir quality and production potential of our lands. This was followed up with 3 gross (3.0 net) development horizontal wells on our Saskatchewan acreage late in the year that has provided significant production and reserves additions. The horizontal wells have shown substantial gains in initial production rates (up to 100 bbls/d). In addition, horizontal wells produce at very low water-cuts and receive extremely favourable royalty incentive holidays. These factors result in low operating costs and excellent field netbacks for this play.

During the latter half of 2007, we have planned a steady drilling program of additional development horizontal wells along with a number of vertical delineation wells. Grand Banks operates over 21,000 net acres of land across this region, with the majority being at 100% working interests. Currently, Grand Banks has 18 single well oil batteries (14 vertical, 4 horizontal) producing approximately 240 net bbls/d.

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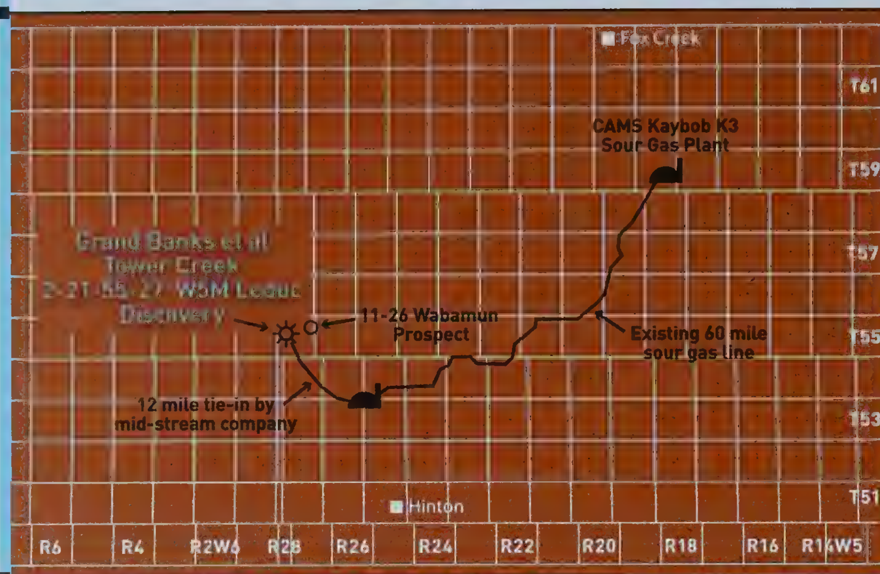
Exploration Prospects

■ The Tower Creek (Harley) area in west central Alberta will once again be an exploration focus for Grand Banks in 2007. Following up on the significant Leduc sour gas discovery at 2-21-55-27 W5M in 2006, Grand Banks will operate with a 19.65% interest and have an after earned working interest of 17.56% in a 4,400-metre new pool wildcat well at 11-26-55-27 W5M. This well will target a 3-D seismically defined, very high deliverability, fractured and over-pressured Wabamun sweet

Harley (Tower Creek), Alberta



gas reservoir only two miles from the newly constructed 14-15 gas plant.

During 2006 in the west central deep basin Kakwa region, we drilled a 50% working interest stepout to our 2005 Gething discovery targeting other Cretaceous gas bearing zones. A new exploration discovery was made in the Bluesky zone and gas was also tested from the existing Gething and Falher pools. Approvals for downspacing and commingling applications are needed before this gas is tied-in and placed on production, which is anticipated for late 2007.

Completion and tie-in of our Brazeau River exploration test was completed in the summer of 2006 with a gas and liquids rich discovery made in the Ellerslie and Upper Mannville zones. This area is characterized by multi-zone pay with potential in the Belly River, Upper and Lower Mannville and Nisku formations.

In the Wood River area of south central Alberta, Grand Banks made one new pool discovery in the Leduc formation and a second Leduc oil well was brought on-stream from a re-entry into an existing suspended Leduc oil producer. The new pool Leduc discovery encountered approximately 10 metres of oil pay and was tested at rates over 200 bbls/d. Pipeline work is currently underway to tie into an existing oil battery in the area. Production of approximately 35 net bbls/d is expected to commence early in the second quarter of 2007. Grand Banks has a 35.3% working interest in this well. The Leduc re-entry well was brought on production just after year-end with gross oil production rates of approximately 40 bbls/d. Grand Banks has a 70% working interest in this well.

In late 2005, Grand Banks, as operator and holding a 50% participatory interest, entered into a large-area farm-in with a major oil and gas company covering over 30,000 acres of land in southeastern Saskatchewan. The lands lie fully within an emerging Bakken light oil resource play that is being developed by several industry competitors and along traditional Mississippian subcrop trends. During 2006, Grand Banks drilled 1 gross (0.5 net) vertical exploration well and 4 gross (2.0 net) productive horizontal oil wells focusing on the Bakken formation potential. By year-end 2006, ten sections of land had been earned and net production was approximately 50 bbls/d with a significant number of exploitation locations set up by this activity. In order to maximize the value from the Bakken play, however, facilities must be installed to gather and process the oil, solution gas and water from this zone. Grand Banks believes that this value may be better realized by another company with a more concentrated land position and existing infrastructure. Accordingly, Grand Banks is currently in the process of disposing of all of its interests in this area, including the farm-in agreement through a public sales process.

Reserves

During 2006, Grand Banks achieved exceptional growth in reserves, including:

- Proved plus probable reserves per 100 shares (fully diluted) increased to 10.9 boe versus 6.1 boe in 2005;
- Grew proved reserves 102% and proved plus probable reserves 94%;
- Estimated net asset value per fully diluted share was $2.35 and $1.84 based on discounted proved plus probable reserve value before tax at 5% and 10%, respectively;
- Finding, development and acquisition costs on a proved plus probable basis with future development capital totaled $15.56/boe;
- Proved plus probable reserves replacement was 691%; and
- Proved plus probable reserve life index was 12.2 years based on 2006 exit production.

	Proved Producing	Total Proved	Total Probable	Total Proved Plus Probable 2006	Change	2005
					(%)	
Crude oil (mbbls)	**1,008.5**	**1,356.2**	**996.2**	**2,352.5**	68	1,401.0
Natural gas (mmcf)	**1,249.7**	**3,571.8**	**4,783.8**	**8,355.6**	169	3,109.1
Liquids (mbbls)	**28.0**	**32.1**	**16.1**	**48.2**	31	36.9
Oil equivalent (mboe)	**1,244.8**	**1,983.6**	**1,809.7**	**3,793.3**	94	1,956.0
(000s)	($)	($)	($)	($)	(%)	($)
Before tax present value discounted at						
5%	**34,130.4**	**49,760.3**	**37,325.3**	**87,085.6**	78	48,897.0
10%	**29,799.3**	**42,587.7**	**26,496.4**	**69,084.1**	67	41,275.0

The above summary of reserves and values was based on the following price and cost assumptions:

Year	Oil: WTI Cushing	Oil: Edmonton Ref. Price	Oil: Cromer 29° API	Natural Gas: Alberta Spot Price	Inflation Rate	Exchange Rate
	(US$/bbl)	(CDN$/bbl)	(CDN$/bbl)	(CDN$/mmbtu)	(%/year)	(US$/CDN$)
2007	61.00	68.58	63.78	7.15	2.0	0.87
2008	60.00	67.40	62.69	7.72	2.0	0.87
2009	60.00	67.37	62.66	7.70	2.0	0.87
2010	58.00	65.04	60.49	7.68	2.0	0.87
2011	56.00	62.71	58.32	7.83	2.0	0.87

Note: All prices and costs escalated at 2% per year after 2011.

Working Interest Reserves Reconciliation (Forecast Prices and Costs)

	Total Proved	Total Proved Plus Probable
	(mboe)	(mboe)
Opening balance – December 31, 2005	982.8	1,956.0
Acquisitions/dispositions	**16.0**	**14.3**
Extensions/revisions/discoveries	**1,295.9**	**2,134.1**
Production	**(311.1)**	**(311.1)**
Closing balance – December 31, 2006	**1,983.6**	**3,793.3**
Reserve replacement ratio	**4.2**	**6.9**
Reserve life index (years)	**6.4**	**12.2**

(Reserve life index has been based on the 2006 exit production rate of approximately 850 boe/d).

Finding, Development and Acquisition Costs

During 2006, Grand Banks spent approximately $26.0 million on exploration and development (including minor acquisition costs) and estimates its finding, development and acquisition costs to be as follows:

	Proved	Proved Plus Probable
(unaudited)	($/boe)	($/boe)
Finding, developing and acquisition costs, including future development capital	**25.64**	**15.56**

Recycle Ratio

The 2006 operating netback for the Corporation was $36.51/boe.

	Proved	Proved Plus Probable
All-in, including future development capital	**1.42**	**2.35**

Net Asset Value Per Fully Diluted Share Information Using Reserve Value at December 31, 2006 (Forecast Pricing and Costs)

	Before Tax	
	5%	10%
(000s, except per share amounts)	($)	($)
Proved plus probable reserve value, including future capital	**87,086**	**69,084**
Undeveloped property, at cost	**1,785**	**1,785**
Option proceeds	**3,548**	**3,548**
Net debt	**(10,562)**	**(10,562)**
Total net assets	**81,857**	**63,855**
Fully diluted shares outstanding (#)	**34,769**	**34,769**
Estimated net asset value per fully diluted share	**2.35**	**1.84**

Advisory

The oil and natural gas reserves data set forth above is based on a consolidation of evaluations performed by Paddock Lindstrom & Associates Ltd. ("Paddock Lindstrom"), excluding the Stoughton/Viewfield properties, and McDaniel & Associates Consultants Ltd. ("McDaniel"), for the Stoughton/Viewfield properties only, each being a qualified, independent reserves evaluator firm engaged by the Board of Directors to collectively evaluate the Corporation's oil and natural gas reserves. The above information, with an effective date of December 31, 2006, comes from the Paddock Lindstrom report dated February 22, 2007 and the McDaniel report dated January 18, 2007. These estimates were calculated using forecast prices and costs.

Finding, Development and Acquisition Costs

Finding, development and acquisition costs are the aggregate of the exploration, development and acquisition costs incurred in the most recent financial year and any change during that year in estimated future development costs. This number generally will not reflect total finding, development and acquisition costs related to reserves additions for that year.

Forecast Prices and Costs

Forecast prices and costs means future prices and costs used by Paddock Lindstrom and McDaniel in the reserves report that are generally accepted as being a reasonable outlook of the future, or fixed or currently determinable future prices or costs to which the Corporation is bound.

Reserves Replacement

Reserves replacement is calculated by dividing the changes in proved plus probable volumes from December 31, 2005 to December 31, 2006, prior to deducting the 2006 production, by 2006 production.

Working Interest

Working interest reserves equate to those reserves that are referred to as "gross" reserves by the Canadian Securities Association National Instrument NI 51-101 Standards of Disclosure for Oil and Gas Activities, which are the Corporation's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Corporation.

Present Value

Present value of future net revenue attributable to Grand Banks' reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures and well abandonment costs for only those wells assigned reserves. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Corporation's reserves estimated in the reserves report represent the fair market value of those reserves. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to effects of aggregation. The recovery and reserves estimates of the Corporation's oil, natural gas and liquids reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

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Land Holdings

■ During 2006, Grand Banks participated in Crown land sales and earned lands through exploratory drilling, which brought the Corporation's total land holdings at December 31, 2006 to 94,455 gross (39,349 net) acres compared to 89,007 gross (35,058 net) acres a year ago.

	2006			2005		
	Gross	Net	Average Interest	Gross	Net	Average Interest
	(acres)	(acres)	(%)	(acres)	(acres)	(%)
Developed lands	**27,524**	**8,547**	**31**	25,761	7,792	30
Undeveloped lands	**66,931**	**30,802**	**46**	63,246	27,266	43
Total lands	**94,455**	**39,349**	**42**	89,007	35,058	39

Drilling Activity

Grand Banks participated in the drilling of 28 gross (15.6 net) wells in 2006 versus 36 gross (21.3 net) wells in 2005. Of this 2006 total, 7 gross (3.6 net) wells were exploratory and 21 gross (12.0 net) wells were development. The Corporation's success rate was 58% for exploration wells and 100% for development wells, representing an overall success rate of 90% in 2006.

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	(#)	(#)	(#)	(#)	(#)
2006						
Crude oil and liquids	**2**	**1.3**	**20**	**11.9**	**22**	**13.2**
Natural gas	**3**	**0.8**	**1**	**0.1**	**4**	**0.9**
Dry and abandoned	**2**	**1.5**	**–**	**–**	**2**	**1.5**
Total wells	**7**	**3.6**	**21**	**12.0**	**28**	**15.6**
Success rate (%)	**71**	**58**	**100**	**100**	**93**	**90**
2005						
Crude oil and liquids	2	1.2	16	12.1	18	13.3
Natural gas	2	0.7	3	0.8	5	1.5
Dry and abandoned	12	5.7	1	0.8	13	6.5
Total wells	16	7.6	20	13.7	36	21.3
Success rate (%)	25	25	95	94	64	69

Production

During 2006, Grand Banks' production averaged 852 boe/d compared to 898 boe/d in 2005. The 5% decline in average production was due to a 2,278 mcf/d decrease in natural gas volumes, primarily from a high decline gas well drilled in 2004 in the Virginia Hills area. This was largely offset by a 334 bbls/d increase in crude oil and liquids volumes from southeastern Saskatchewan and Manitoba.

MANAGEMENT'S DISCUSSION AND ANALYSIS

STRONG YEAR-OVER-YEAR RESULTS AND DISCIPLINED COST MANAGEMENT PROVIDES GRAND BANKS THE ABILITY TO INVEST IN GROWTH AND SEIZE OPPORTUNITIES TO BUILD VALUE.

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Grand Banks Energy Corporation and accompanying notes for the year ended December 31, 2006. In this MD&A, production and reserves information are commonly reported in units of barrels of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosures of boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

This MD&A and the annual financial statements and accompanying notes have been prepared by management and approved by the Audit Committee of the Board of Directors of Grand Banks and include information to April 16, 2007.

The quarterly financial statements have not been reviewed or audited on behalf of the shareholders by the Corporation's independent external auditors.

All financial measures presented in this Annual Report are expressed in Canadian dollars unless otherwise indicated.

Highlights

Grand Banks Energy Corporation ("Grand Banks" or the "Corporation") recorded average sales of natural gas, crude oil and liquids during the year ended December 31, 2006 of 852 boe/d versus 898 boe/d produced a year prior. However, during 2006 Grand Banks dramatically increased its reserves, thereby positioning the Corporation for commensurate increases in its production levels as it ties-in its Tower Creek gas discovery and develops its light oil properties.

During 2006, Grand Banks participated in 28 gross (15.6 net) wells, of which 22 gross (13.2 net) were cased oil wells, 4 gross (0.9 net) were cased gas wells and 2 gross (1.5 net) were dry holes, for an average 93% gross (90% net) success rate. By December 31, 2006, 20 gross (12.2 net) of these oil wells and 2 gross (0.2 net) gas wells had been brought on production. The remaining 2 gross (1.0 net) oil wells will be brought on-stream in 2007. The remaining 2 gross (0.7 net) gas wells are awaiting tie-in.

The Corporation will continue with its strategy for growth through the drill bit. The progress that has been made over the past year, which emphasizes lower risk development drilling, is expected to steadily increase corporate reserves. As reserves are added in a cost effective manner, depletion will decline and profitability will increase. Grand Banks will continue to devote a portion of its budget to high impact exploratory projects, financed primarily with the proceeds of flow-through financings. This strategy is particularly well suited to Grand Banks because the tax pools renounced to investors in flow-through shares are offset by corporate tax pools in excess of $52,000,000.

Financial and Operational Results

The following table summarizes the results for the years ended December 31, 2006, 2005 and 2004:

Years Ended December 31,	2006	2005	Change		2004
				(%)	
Sales Volumes					
Crude oil and liquids (bbls/d)	**592**	258	334	129	68
Natural gas (mcf/d)	**1,556**	3,834	(2,278)	(59)	457
Royalty income (boe/d)	**1**	2	(1)	(50)	8
Average boe/d (6:1)	**852**	898	(46)	(5)	152
	($)	($)	($)	(%)	($)
Product Prices					
Crude oil and liquids ($/bbl)	**63.07**	56.63	6.44	11	47.17
Natural gas ($/mcf)	**6.70**	8.50	(1.80)	(21)	6.70
(000s, except per share amounts)	($)	($)	($)	(%)	($)
Financial Results					
Gross revenues	**17,504**	17,377	127	1	2,590
Loss before income taxes	**(679)**	(2,160)	1,481	69	(1,260)
Net income (loss)	**627**	930	(303)	(33)	999
Per share – basic	**0.02**	0.03	(0.01)	(33)	0.05
Per share – diluted	**0.02**	0.03	(0.01)	(33)	0.05
Funds flow from operations	**9,706**	9,066	640	7	652
Per share – basic	**0.32**	0.34	(0.02)	(6)	0.03
Per share – diluted	**0.31**	0.32	(0.01)	(3)	0.03
Additions to property and equipment, net of proceeds	**25,956**	22,255	3,701	17	13,101
Total assets	**52,251**	42,336	9,915	23	24,647
Working capital	**(10,562)**	1,777	(12,339)	(694)	3,802
Asset retirement obligation	**961**	894	67	7	341
Flow-through share obligations	**3,855**	6,740	(2,885)	(43)	5,000
	($/boe)	($/boe)	($/boe)	(%)	($/boe)
Netback Analysis					
Oil and gas revenue (6:1)	**56.11**	52.61	3.50	7	43.31
Royalty expense	**10.71**	14.35	(3.64)	(25)	7.83
Operating costs	**8.89**	6.18	2.71	44	8.94
Netback	**36.51**	32.08	4.43	14	26.54

Sales Volumes

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
			(%)			(%)
Crude oil and liquids (bbls/d)	**631**	522	21	**592**	258	129
Natural gas (mcf/d)	**1,363**	2,690	(49)	**1,556**	3,834	(59)
Royalty income (boe/d)	**2**	–	–	**1**	2	(50)
Average boe/d (6:1)	**860**	970	(11)	**852**	898	(5)

The 5% decline in average production was due to a 2,278 mcf/d decrease in natural gas volumes largely offset by a 334 bbls/d increase in crude oil and liquids volumes. The reduction in natural gas volumes was primarily due to expected declines at Virginia Hills in Alberta. Natural gas sales from the Tower Creek 02-21 well drilled in 2006 are expected to commence in June 2007. The increases in crude oil and liquid volumes were primarily as a result of new wells at Kingsford, Frys and Stoughton in Saskatchewan and Sinclair in Manitoba. All of the Corporation's sales volumes consisted of natural gas and light to medium gravity crude oil, with no heavy oil.

Gross Revenues

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Crude oil and liquids	**3,443**	2,751	25	**13,637**	5,327	156
Natural gas	**863**	2,871	(70)	**3,806**	11,895	(68)
Royalty income	**9**	1	800	**13**	29	(55)
Interest and other income	**–**	30	(100)	**48**	126	(62)
	4,315	5,653	(24)	**17,504**	17,377	1

The 1% increase in total revenues for the year ended December 31, 2006 was due to a 156% increase in crude oil and liquids revenue offset by a 68% decrease in natural gas revenue. The increase in crude oil and liquids revenue was due to a 129% rise in crude oil and liquids volumes combined with an 11% increase in prices. Natural gas revenues declined in 2006 due to a 59% decrease in natural gas volumes and a 21% decline in product prices. For the year ended December 31, 2006, interest income totaled $48,000 versus $126,000 in 2005 due to lower average cash balances earning interest. The Corporation has not hedged any of its production.

Royalty Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Royalty expenses	**737**	1,547	(52)	**3,331**	4,706	(29)
$/boe	**9.31**	17.34	(46)	**10.71**	14.35	(25)
Royalty rate (%)	**17.1**	27.5	–	**19.1**	27.3	–

The lower royalty rates were due to royalty holidays on new wells in Frys and Sinclair combined with lower volumes from a high royalty well at Virginia Hills.

Production Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Production expenses	**729**	628	16	**2,766**	2,027	36
$/boe	**9.21**	7.04	31	**8.89**	6.18	44

Production expenses totaled $2,766,000 or $8.89/boe for 2006 compared to $2,027,000 or $6.18/boe a year ago. The $739,000 increase was a result of higher unit operating costs. The increase in unit operating costs resulted from lower production for the Virginia Hills well and an increase in oil production and its higher per unit production costs.

Depletion, Amortization and Accretion

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Depletion and amortization	**2,125**	2,629	(19)	**9,493**	10,652	(11)
Loss on asset retirement	**-**	22	(100)	**-**	98	(100)
Accretion of asset retirement obligations	**24**	18	33	**85**	67	27
	2,149	2,669	(19)	**9,578**	10,817	(11)
$/boe	**27.15**	29.91	(9)	**30.79**	32.99	(6)

For the year ended December 31, 2006, the 11% decrease in depletion, amortization and accretion costs was due to a 5% decline in production volumes and a 6% decrease in the depletion, amortization and accretion rate. For the three months ended December 31, 2006, these costs declined 19% due to an 11% decrease in volumes and a 9% reduction in the depletion rate. The lower depletion rate was due to improved finding and developing costs of proved reserves.

Interest

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Interest expenses	**40**	(6)	–	**177**	50	254
$/boe	**0.51**	(0.07)	–	**0.57**	0.15	–

The increase in interest costs was due to an increase of $89,000 in interest and line of credit fees combined with a rise of $38,000 in charges relating to flow-through share funds. The Corporation utilized its line of credit in 2006 as working capital declined from $1.8 million at December 31, 2005 to net debt of $10.6 million at December 31, 2006. The interest on flow-through shares relates to amounts renounced and not spent until the following year under the "look back" rule.

General and Administrative Costs

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Gross general and administrative costs	**736**	589	25	**2,082**	1,679	24
Overhead recovered	**(172)**	(128)	34	**(587)**	(247)	138
Overhead capitalized	**-**	3	(100)	**-**	(178)	(100)
	564	464	22	**1,495**	1,254	19
$/boe	**7.12**	5.20	37	**4.81**	3.82	26

Year-over-year general and administrative costs increased $241,000 or 19% due primarily to expanded operations resulting in higher salaries and benefits, consulting fees and reduced overhead capitalized partially offset by increased recoveries from operations. Overhead recoveries increased due to more operated capital projects. The decrease in capitalized overhead was primarily as a result of higher overhead recovered. The increase in the cost per boe was attributable to lower production volumes combined with increased general and administrative costs. The 22% increase in general and administrative costs in the three-month period was primarily due to increased bonuses.

Stock-Based Compensation

	Three Months Ended December 31,			Years Ended December 31,		
	2006	2005	Change	**2006**	2005	Change
(000s)	($)	($)	(%)	($)	($)	(%)
Stock-based compensation	**137**	167	(18)	**836**	683	22
$/boe	**1.73**	1.87	(7)	**2.69**	2.08	29

Stock-based compensation costs increased $153,000 or 22% due to a higher number of options issued combined with an increase in the value assigned to each option. During 2006, the Corporation issued 709,000 stock options compared to 580,000 issued in 2005. The average stock compensation cost assigned to each option was $1.12 in 2006 versus $0.87 in 2005. Stock-based compensation costs are amortized over the vesting period, which is two years from the date of grant.

Income Tax

The Corporation recorded a future income tax recovery of $1,306,000 in 2006 compared to $3,090,000 a year ago. Grand Banks recorded a future income tax recovery in each of the periods relating to flow-through shares issued during the year.

Net Income

Grand Banks recorded net income of $627,000 or $0.02 per share for 2006 compared to $930,000 or $0.03 per share in 2005.

Liquidity and Capital Resources

At December 31, 2006, the Corporation had a working capital deficiency of $10,562,000 (including bank indebtedness of $6,328,000) versus positive working capital of $1,777,000 at December 31, 2005. Grand Banks had a $10,500,000 line of credit available at the bank's prime rate plus 0.25%, which was fully utilized at December 31, 2006. The Corporation has a covenant to ensure that its working capital deficiency is not in excess of its lines of credit. The financial institution has agreed the Corporation was not in breach of this financial covenant. Subsequent to year-end, the Corporation received approval for a $1,200,000 non-revolving reducing term facility that was drawn down in February 2007. The Corporation has executed a purchase and sale for its Stoughton/Viewfield properties in Saskatchewan, which is scheduled to close May 3, 2007. The proceeds from this sale, together with cash flow and lines of credit, are expected to meet the Corporation's working capital commitments for 2007. The Corporation has an obligation to commence drilling an exploration well at Tower Creek 11-26 by July 2007. The Corporation's estimated share of this well is $3.8 million.

During 2006, the Corporation had funds flow from operations of $9,760,000. (See "Non-GAAP Measures.") The Corporation has not declared any dividends. The Corporation had a $3,855,000 flow-through spending obligation at December 31, 2006, which it believes will be met by the December 31, 2007 deadline.

The Corporation expects to use funds flow from operations plus the addition of a $1,200,000 term loan facility to meet its spending plans, which includes the tie-in of the existing Tower Creek well. Increased funds flow from the 02-21 Tower Creek discovery well plus the sale of the Stoughton/Viewfield property is expected to fund the Corporation's capital plans, including the Tower Creek 11-26 option well, until the end of 2007.

Financing Activities

The Corporation closed a private placement in November 2006 raising $4,200,000 through the issuance of 2,000,000 flow-through common shares. At December 31, 2006, there was $47,500 in share purchase loans outstanding. During 2006, the Corporation was granted an increase in its revolving line of credit from $5,400,000 to $10,500,000. Subsequent to December 31, 2006, the Corporation borrowed $1,200,000 in the form of a fixed term loan to finance the facilities for the tie-in of the Tower Creek well.

December 31,	**2006**	2005	Change	
(000s)	($)	($)	($)	(%)
Land	**1,478**	1,300	178	14
Geological and geophysical	**312**	804	(492)	(61)
Drilling and completion	**20,505**	18,320	2,185	12
Equipment and gathering	**3,760**	2,842	918	32
General and administrative costs capitalized	**–**	178	(178)	(100)
Office equipment	**24**	11	13	118
	26,079	23,455	2,624	11
Less proceeds of disposition	**123**	1,200	(1,077)	(90)
Additions to property and equipment, net of proceeds	**25,956**	22,255	3,701	17

The increase in capital spending was due to the higher number of horizontal wells drilled in 2006 versus 2005 plus the cost of the deep exploratory discovery well at Tower Creek 02-21.

Financial Instruments

Grand Banks has not entered into any commodity or financial instrument hedges, however, it does carry various forms of financial instruments, all of which are recognized in the Corporation's financial statements. Unless otherwise indicated in the financial statements, it is management's opinion that the Corporation is not exposed to excessive interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise indicated. The Corporation has no unrecognized gains or losses on its financial instruments.

Obligations

		Payments Due By Period			
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
(000s)	($)	($)	($)	($)	($)
Office lease	1,429	238	608	583	–
Flow-through shares	3,855	3,855	–	–	–
Lease rentals land	482	123	196	123	40
Asset retirement obligations	3,063	262	148	223	2,430
Total contractual obligations	8,829	4,478	952	929	2,470

At December 31, 2006, the Corporation had farm-in obligations that are not included in the preceding table. The most significant of these obligations is for the 11-26 Tower Creek option well, which is scheduled to be drilled in the summer of 2007. Grand Banks is the operator and will pay 19.65% to earn a 17.56% working interest in this well. These farm-in obligations are expected to meet some of the flow-through share obligations outlined in the preceding table.

Transactions with Related Parties

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

(a) Consulting fees of $328,000 (2005 – $194,000) to companies controlled by officers of the Corporation for the year ended December 31, 2006.

(b) The Corporation conducts oil and gas exploration and development activities and related transactions with organizations managed or controlled by directors. These transactions are negotiated and conducted using standard industry agreements and terms.

(c) The Corporation incurred legal fees of $55,000 (2005 – $Nil) to a firm in which one of the Corporation's officers was a partner.

(d) Included in general and administrative expenses is $53,000 (2005 – $48,000) relating to directors' fees paid to independent directors.

(e) Included in other income is $2,400 (2005 – $8,000) of interest charged on the share purchase loans, as reflected in Note 8 to the financial statements.

Summary of Quarterly Results

Eight-Quarter Comparison

The quarterly results are prepared without audit or review by the Corporation's independent auditors. The following table summarizes the Corporation's financial and operating highlights for the past eight quarters. Sales volumes are the average for the periods shown, net to the Corporation, before the deduction of royalties.

Three Months Ended	Mar.31, 2005	Jun.30, 2005	Sep.30, 2005	Dec.31, 2005	**Mar.31, 2006**	**Jun.30, 2006**	**Sep.30, 2006**	**Dec.31, 2006**
Sales Volumes								
Crude oil and liquids (bbls/d)	98	180	227	522	**643**	**527**	**569**	**631**
Natural gas (mcf/d)	2,224	5,653	4,755	2,690	**1,844**	**1,561**	**1,464**	**1,363**
Royalty income (boe/d)	4	1	1	–	**–**	**–**	**–**	**2**
Average boe/d (6:1)	473	1,123	1,021	970	**951**	**787**	**813**	**860**
	($)	($)	($)	($)	($)	($)	($)	($)
Product Prices								
Crude oil and liquids ($/bbl)	52.79	51.82	60.38	57.34	**57.21**	**67.10**	**70.17**	**59.28**
Natural gas ($/mcf)	7.02	7.37	8.74	11.60	**7.80**	**6.02**	**5.89**	**6.88**
Oil equivalent ($/boe)	41.97	45.48	54.23	63.01	**53.84**	**56.86**	**59.68**	**54.51**
(000s, except per share amounts)	($)	($)	($)	($)	($)	($)	($)	($)
Financial Results								
Gross revenues	1,921	4,685	5,117	5,653	**4,632**	**4,088**	**4,469**	**4,315**
Net income (loss)	(282)	1,018	(1,113)	1,307	**(425)**	**(439)**	**226**	**1,265**
Per share – basic	(0.01)	0.04	(0.04)	0.04	**(0.01)**	**(0.01)**	**(0.01)**	**0.04**
Per share – diluted	(0.01)	0.04	(0.04)	0.04	**(0.01)**	**(0.01)**	**(0.01)**	**0.04**
Funds flow from operations	856	2,681	2,532	2,997	**2,803**	**2,209**	**2,475**	**2,219**
Additions to property and equipment, net of proceeds	6,673	2,020	5,291	8,270	**7,196**	**5,426**	**6,097**	**7,237**
Total assets	30,934	31,492	34,713	42,336	**43,511**	**42,371**	**44,526**	**52,251**
Working capital	3,805	4,499	3,725	1,777	**(2,576)**	**(6,011)**	**(9,571)**	**(10,562)**
Flow-through share obligation	7,350	6,350	5,350	6,740	**3,500**	**1,800**	**740**	**3,855**
Asset retirement obligation	817	827	832	894	**964**	**753**	**837**	**961**

Sales Volumes

The 137% increase in 2005 second quarter sales volumes over the first quarter of 2005 was primarily due to the full quarter effect of the Virginia Hills well. During the third quarter of 2005, natural gas sales volume declines from Virginia Hills were largely offset by increased crude oil and liquids sales volumes from new wells in Saskatchewan and Manitoba. During the fourth quarter of 2005, total sales volumes dropped modestly as natural gas volume declines at Virginia Hills exceeded new oil sales volumes for Kingsford and Sinclair.

Natural gas volumes continued to decline in 2006 as the Corporation concentrated on drilling for oil in southeastern Saskatchewan and Manitoba. The Tower Creek discovery well drilled in mid-2006 will not be tied-in and producing until the second quarter of 2007.

Gross Revenues

The increases in gross sales revenues were directly related to the sales volumes from the wells previously discussed combined with product price changes shown on the quarterly table. All of the Corporation's natural gas, crude oil and liquids were sold at spot prices, which are subject to world and North America supply and demand fundamentals.

Net Income (Loss)

In the first quarter of 2005, the Corporation recorded a net loss of $282,000 as increased revenues from higher sales volumes were more than offset by increased depletion expense and stock-based compensation costs. The increase in depletion expense was due to higher sales volumes and an increased depletion rate. The Corporation recorded a net income of $1,018,000 in the second quarter of 2005 as higher sales volumes and revenues combined with recording a future tax benefit of $1,967,000 more than offset increased depletion expense. In the third quarter of 2005, the Corporation recorded a net loss of $1,113,000 as increased revenues from higher product prices were more than offset by a continuation of the high depletion costs. During the 2005 fourth quarter, net income improved to $1,307,000 due to recording a future tax recovery of $1,123,000 relating to the issue of flow-through shares and a lower depletion rate.

The Corporation incurred a modest loss in the first and second quarters of 2006. In the third quarter of 2006, the Corporation recorded net income of $226,000 as the increased proved reserves from the Tower Creek well reduced the depletion rate. The fourth quarter of 2006 also showed a net income of $1,265,000 as a result of a lower depletion rate combined with a future tax recovery of $1,306,000.

Additions to Property and Equipment

Grand Banks' capital program ranged between $5.0 million and $8.0 million per quarter, except in the second quarter of 2005 when wet weather delayed drilling projects.

Working Capital

During the first and fourth quarters of 2005, the Corporation raised additional equity capital for gross proceeds of $5,850,000 and $3,340,000, respectively.

During 2005, working capital declined from $3,805,000 to $1,777,000 as capital spending exceeded funds from operations and the proceeds from two flow-through share issues totaling $9,190,000. In 2006, working capital declined from $1,777,000 at December 31, 2005 to a working capital deficit of $10,562,000 as capital spending exceeded funds from operations. During the fourth quarter of 2006, the Corporation raised gross proceeds of $4,200,000 from a flow-through share issue. The Corporation also increased its available lines of credit from $10,500,000 at December 31, 2006 by a $1,200,000 fixed term loan in early 2007.

Flow-Through Obligations

The remaining flow-through obligation represented the amount of flow-through shares issued in excess of qualifying capital expenditures. During 2005, the Corporation issued flow-through shares totaling $9,190,000. At December 31, 2005, $6,740,000 of these obligations remained.

In 2006, the Corporation issued $4,200,000 of flow-through shares. The remaining flow-through obligations at December 31, 2006 totaled $3,855,000, which Grand Banks expects to spend before December 31, 2007 as required.

Asset Retirement Obligations

The asset retirement obligations grew from $817,000 in the first quarter of 2005 to $961,000 in the fourth quarter of 2006 as the Corporation continued to drill wells that are required to be abandoned and reclaimed at some point in the future. The asset retirement obligation represents the present value of future abandonment and reclamation cost for the Corporation's interest in the wells. These amounts do not include the current portion of asset retirement obligations, which are included in working capital.

Other Items

Outstanding Shares, Options and Warrants

The following table is a summary of the Corporation's share capital structure:

As at	**December 31, 2006**	**April 10, 2007**
(000s)	(#)	(#)
Common shares outstanding	**31,915**	**32,406**
Options outstanding	**2,854**	**3,091**
Fully diluted	**34,769**	**35,497**

	Shares	Weighted Average Exercise Price	Weighted Average Term
	(#000s)	($)	(Years)
Options outstanding at December 31, 2005	2,310	1.10	4.6
Options outstanding at December 31, 2006	**2,854**	**1.24**	**4.1**
Options vested at December 31, 2006	**2,138**	**1.15**	**3.6**

Accounting Policy Changes

There were no accounting policy changes in 2006.

Critical Accounting Estimates

Management is required to make judgements, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Corporation.

Reserve estimates have a significant impact on income or loss, as they are a key component in the calculation of depletion and depreciation and site restoration costs. A change in the reserve quantity estimates will result in a corresponding change in depletion, depreciation and site restoration costs. In addition, if capitalized costs are determined to be in excess of the calculated ceiling, which is based on reserve quantities and values, the excess must be written off as an expense.

The reserves and estimated future net cash flow from the assets of Grand Banks have been independently evaluated.

Future site restoration costs are estimated and amortized over the life of reserves. These costs were estimated by management using industry standard guidelines. A change in estimated future site restoration costs will change the amortization of site restoration costs included in depletion and depreciation expense.

Non-GAAP Measures

Funds generated from operations is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). Management believes that funds flow from operations is a useful measure of financial performance. For the purposes of funds flow from operations calculations, the following table reconciles the non-GAAP financial measures "funds flow from operations" to "net income," the most comparable measure calculated in accordance with GAAP:

	Three Months Ended December 31,		Years Ended December 31,	
	2006	2005	**2006**	2005
(000s)	($)	($)	($)	($)
Net income	**1,265**	1,307	**627**	930
Adjustments for:				
Accretion of asset retirement obligation	**24**	18	**85**	67
Depletion and amortization	**2,125**	2,629	**9,493**	10,652
Loss on settlement of asset retirement obligation	**-**	22	**-**	98
Stock-based compensation	**137**	167	**836**	683
Future income tax (recovery)	**(1,306)**	(1,123)	**(1,306)**	(3,090)
Assets retirement costs	**(26)**	(23)	**(29)**	(274)
Funds flow from operations	**2,219**	2,997	**9,706**	9,066

Netback is the average per unit of volume for oil and gas revenues less royalties and production costs incurred. Netback is expressed in terms of dollars per boe and is calculated in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities.

Disclosure Controls

As of December 31, 2006, the Corporation's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and Chief Financial Officer.

Disclosure Controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Corporation's Disclosure Controls will prevent or detect all errors and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Corporation have been detected.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Corporation's Disclosure Controls are effective in ensuring that material information relating to the Corporation is made known to the Corporation's management on a timely basis by others and is included as appropriate in this MD&A.

Internal Controls Over Financial Reporting

During the fourth quarter of 2006, the Corporation designed and implemented internal controls over financial reporting. These internal controls are designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and preparation of the Corporation's financial statements for external purposes in accordance with generally accepted accounting principles.

Due to inherent limitations, the Corporation's system of internal control over financial reporting does not guarantee that a material misstatement in the financial statements or occurrence of fraud would be prevented or detected in a timely manner. Management considers the size and the nature of the Corporation's operations, and exercises judgement in designing appropriate and cost effective controls for the detection and prevention of material error in the financial statements or occurrence of fraud with a potential material impact on the reliability of the financial statements.

The Corporation has a lack of segregation of duties over the financial close and reporting functions due to limited staff. Management has concluded and the Board has agreed that, taking into account the present stage of the Corporation's development and the best interest of its shareholders, the Corporation does not have sufficient size and scale to warrant the hiring of additional staff to correct this weakness at this time. Subsequent to year-end, the Corporation had a lack of continuity of the CFO, as the CFO retired. A replacement CFO was hired, however this candidate was unable to continue in this position for personal reasons. The Corporation has subsequently appointed Shawn McDonald, B.Comm., LL.B., as CFO. The Corporation relies primarily on the CFO for financial reporting. The Corporation has implemented compensating controls in the form of additional review of the financial close procedure by qualified Audit Committee members. The Corporation's officers and Audit Committee review the quarterly financial reports, and annual audits are conducted by the Corporation's independent auditors. The Corporation seeks third party expertise to review more complex financial reporting items.

The Corporation is continuing with its efforts in formalizing and documenting various elements of its system of internal control over financial reporting in preparation for the evaluation of the operating effectiveness of its internal control system within the timelines to be prescribed by the Canadian Securities Administrators.

Forward-Looking Statements

This Annual Report contains forward-looking or outlook information with respect to Grand Banks. The use of any of the words "anticipate," "continue," "estimate," "expect," "may," "will," "project," "should," "believe," "outlook," and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the Corporation's forward-looking statements. Consequently, all of the forward-looking statements made in this Annual Report are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Corporation will be realized, or that they will have the expected consequences or effects on the Corporation or its business or operations. The Corporation assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A.

- Volatility in market prices for oil and natural gas.
- Risks inherent in the Corporation's operations.
- Geological, technical, drilling and processing problems.
- General economic conditions.
- Industry conditions, including fluctuation in the price of oil and natural gas.
- Governmental regulations.
- Fluctuation in foreign exchange and interest rates.
- Unanticipated events that can reduce production or cause production to be shut-in or delayed.
- Failure to obtain industry partners and other third party consents and approvals, when required.
- The need to obtain required approvals from regulatory authorities.
- The other factors discussed in the "Operational and Other Business Risks" section of this MD&A.

Operational and Other Business Risks

The future oil and natural gas production of Grand Banks, and therefore future cash flows, are highly dependent upon ongoing success in exploring its current and future undeveloped land base, exploiting the current producing properties and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, reserves and production will decline over time as reserves are depleted.

The business of discovering, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, the ability of Grand Banks to make the necessary capital investments to maintain and expand its oil and natural gas reserves may be impaired.

There can be no assurance that the Corporation will be able to find and develop or acquire additional reserves to replace and grow production at acceptable costs.

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Grand Banks will result in new discoveries of oil and natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Grand Banks depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participation are identified, Grand Banks may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rate over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

The production forecast and recoverable estimates contained in the Corporation's engineering report are only estimates, and the actual production and ultimate recoverable reserves from the properties may be greater or less than the independent estimates of Paddock Lindstrom & Associates Ltd. ("Paddock Lindstrom") and McDaniel & Associates Consultants Ltd. ("McDaniel").

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of Grand Banks. The reserve and cash flow information set forth herein represent estimates only. The reserves and estimated future net cash flow from the assets of Grand Banks have been independently evaluated by Paddock Lindstrom and McDaniel. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditure, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves.

These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

The operational results and financial condition of Grand Banks will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect of the operations, proved reserves and financial conditions of Grand Banks and could result in a reduction of the net production revenue of the Corporation causing a reduction in its oil and gas acquisition and development activities.

In addition, bank borrowings that might be made available to the Corporation are typically determined in part by the borrowing base of the reserves of Grand Banks. A sustained material decline in prices from historical average prices could reduce the borrowing base of the Corporation, therefore reducing the bank credit available to Grand Banks and possibly requiring that a portion of such bank debt be repaid.

Grand Banks uses the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed on a quarterly basis for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows.

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilties, other property and the environment or in personal injury.

In accordance with industry practice, Grand Banks is not fully insured against all of these risks, nor are all such risks insurable. Although Grand Banks maintains liability insurance, where available, in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Grand Banks could incur significant costs that could have a material adverse affect upon its financial condition. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability and/or cost of such equipment to Grand Banks and may delay exploration and development activities. To the extent Grand Banks is not the operator of its oil and gas properties, the Corporation will be dependent on other operators for timing of activities related to non-operating properties and will be largely unable to direct or control the activities of the operators.

Although property title reviews are completed according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of Grand Banks, which could result in the reduction of the revenue received by the Corporation.

There is strong competition relating to all aspects of the oil and natural gas industry. Grand Banks actively competes for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than Grand Banks.

The success of Grand Banks depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. Grand Banks does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of Grand Banks are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of international conventions and Canadian federal, provincial and municipal laws, regulations and guidelines. A breach of such regulations may result in the imposition of fines or issuances of clean-up orders in respect of Grand Banks or its assets. Such regulations may be changed to impose higher standards and potentially more costly obligations on the Corporation. There can be no assurance that future environmental costs will not have a material adverse affect on Grand Banks.

Other Information

■ Additional information regarding Grand Banks Energy Corporation's reserves and other data is available on the Corporation's website at www.grandbanksenergy.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

FINANCIAL
STATEMENTS

GRAND BANKS OPERATES FROM A POSITION OF FINANCIAL STRENGTH AND STABILITY WITH SHAREHOLDERS' EQUITY OF $52.2 MILLION.

MANAGEMENT'S RESPONSIBILITY STATEMENT

To the Shareholders of Grand Banks Energy Corporation

The accompanying financial statements and all information contained in the Annual Report are the responsibility of management. The financial statements of the Corporation have been prepared by management in accordance with the accounting policies set out in the accompanying notes to the financial statements. In the opinion of management, the financial statements have been prepared with acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles ("GAAP") appropriate in the circumstances.

Management maintains systems of control appropriate for the Corporation's size and operations. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable and timely financial information for the preparation of financial statements.

The Audit Committee of the Corporation's Board of Directors, comprised of non-management Directors, recommends the nomination of the independent auditors and meets with management and the independent auditors to satisfy themselves that management fulfills its responsibilities for financial reporting and control. The Committee reviews the financial statements with the external auditors, considers auditors' independence and approves the auditors' fees.

The financial statements have been audited by Deloitte & Touche LLP, independent auditors, and have been approved by the Board of Directors on the recommendation of the Audit Committee.

Edward C. McFeely
President & Chief Executive Officer

Shawn D. McDonald, B.Comm., LL.B.
Chief Financial Officer

Calgary, Alberta
April 16, 2007

AUDITORS' REPORT

To the Shareholders of Grand Banks Energy Corporation

We have audited the balance sheets of Grand Banks Energy Corporation as at December 31, 2006 and 2005 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 23, 2007

BALANCE SHEETS

As at December 31,	2006	2005
(000s)	($)	($)
Assets		
Current		
Cash and cash equivalents	**–**	5,443
Accounts receivable	**6,044**	5,698
Prepaid expenses and advances	**160**	100
	6,204	11,241
Property and equipment (Note 3)	**44,741**	28,005
Future tax asset (Note 9)	**1,306**	3,090
	52,251	42,336
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 4)	**6,328**	–
Accounts payable and accrued liabilities	**10,176**	9,464
Current portion of asset retirement obligation (Note 5)	**262**	–
	16,766	9,464
Asset retirement obligation (Note 5)	**961**	894
	17,727	10,358
Shareholders' Equity		
Share capital (Note 6)	**30,489**	29,228
Share purchase loans (Note 8)	**(48)**	(48)
Contributed surplus (Note 7)	**2,448**	1,790
Retained earnings	**1,635**	1,008
	34,524	31,978
	52,251	42,336

See accompanying notes to the financial statements.

On behalf of the Board of Directors:

W. J. McNaughton
Chairman of the Audit Committee

Thomas Bamford
Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the Years Ended December 31,	2006	2005
(000s, except per share amounts)	($)	($)
Revenue		
Crude oil and liquids	**13,637**	5,327
Natural gas	**3,806**	11,895
Royalty and process income	**13**	29
Interest income	**48**	126
	17,504	17,377
Less: royalties	**(3,331)**	(4,706)
	14,173	12,671
Expenses		
Accretion of asset retirement obligation (Note 5)	**85**	67
Depletion and amortization	**9,493**	10,652
General and administrative	**1,495**	1,254
Interest	**177**	50
Loss on settlement of asset retirement obligation (Note 5)	**–**	98
Production	**2,766**	2,027
Stock-based compensation (Note 10)	**836**	683
	14,852	14,831
Net (loss) before taxes	**(679)**	(2,160)
Future income tax recovery (Note 9)	**1,306**	3,090
Net income for the year	**627**	930
Retained earnings, beginning of year	**1,008**	78
Retained earnings, end of year	**1,635**	1,008
Earnings per share		
Basic and diluted (Note 6)	**0.02**	0.03

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2006	2005
(000s)	($)	($)
Cash flows from operating activities		
Net income for the year	**627**	930
Adjustments for:		
Accretion of asset retirement obligation (Note 5)	**85**	67
Depletion and amortization	**9,493**	10,652
Loss on settlement of asset retirement obligation (Note 5)	**–**	98
Stock-based compensation	**836**	683
Future income tax recovery	**(1,306)**	(3,090)
Asset retirement costs incurred (Note 5)	**(29)**	(274)
Funds flow from operations	**9,706**	9,066
Changes in non-cash operating working capital balances (Note 14)	**(320)**	(637)
	9,386	8,429
Cash flows from financing activities		
Bank indebtedness (Note 4)	**6,328**	–
Share purchase loans	**–**	95
Issue of shares, net	**4,173**	11,069
Change in non-cash working capital	**–**	214
	10,501	11,378
Cash flows from investing activities		
Proceeds on disposal of property and equipment	**123**	1,200
Additions to property and equipment	**(26,079)**	(23,455)
Change in non-cash investing working capital (Note 14)	**626**	1,039
	(25,330)	(21,216)
Decrease in cash and cash equivalents	**(5,443)**	(1,409)
Cash and cash equivalents, beginning of year	**5,443**	6,852
Cash and cash equivalents, end of year		
Supplemental disclosures (Note 14)	**–**	5,443

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

1. NATURE OF OPERATIONS

Grand Banks Energy Corporation's ("Grand Banks" or "the Corporation") principal business is the exploration, development and production of crude oil and natural gas properties. The Corporation was originally incorporated on June 25, 1969 under the British Columbia Companies Act and changed its name from Pacific Amber Resources Ltd. to Grand Banks Energy Corporation in 2003. The Corporation has been continued under the Alberta Business Corporations Act. The Corporation's common voting shares are listed on the TSX Venture Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Property and Equipment

The Corporation accounts for crude oil and natural gas properties using the full cost method of accounting. Under this method, all costs associated with the acquisition of, exploration for and the development of natural gas and crude oil reserves, including asset retirement costs, are capitalized.

Costs accumulated within each cost centre are depleted and amortized using the unit-of-production method based on estimated gross (before deduction of royalties) proved reserves. For purposes of this calculation, gas is converted to oil on an energy equivalent basis (six thousand cubic feet of natural gas to one barrel of oil). Capitalized costs subject to depletion are net of equipment salvage values and include estimated future costs to be incurred in developing proved reserves. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20% or greater, in which case a gain or loss is recorded.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Corporation applies an impairment test ("ceiling test") to determine if capitalized costs are not recoverable and exceed their fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of the fair value of proved and probable reserves and the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Expenditures that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are charged against income.

Office equipment is recorded at cost. Amortization is provided on a declining balance basis at rates ranging from 20% to 30% over the estimated useful life of the equipment .

(b) Joint Venture Operations

Substantially all of the Corporation's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Asset Retirement Obligations

The Corporation recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines and management's estimates on a site-by-site basis. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit-of-production method based on estimated gross proved reserves as determined by independent engineers. Actual expenditures incurred are charged against the accumulated obligation. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in the period in which settlement occurs.

(d) Flow-Through Shares

Expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are to be renounced to investors in accordance with income tax legislation. Share capital is reduced by the estimated cost of the renounced tax deductions for expenditures renounced.

(e) Future Income Taxes

The Corporation uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(f) Measurement Uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment, the provision for asset retirement obligation and stock-based compensation are based on estimates. A number of the Company's financial statement calculations are based on estimates of proved and probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in estimates in future periods could be significant.

The Black-Scholes option valuation method was developed for use in estimating the fair value of traded options that were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options and performance incentive warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty. Once recorded, no adjustments are made to the fair value recorded for the options.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements, the accruals made by management in this regard may be significantly different from those determined by the Corporation's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

The Corporation is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated asset retirement obligation costs. Any changes in these estimates will affect future earnings.

Costs attributable to commitments and contingencies are expected to be incurred over an extended period of time and are to be funded primarily from the Corporation's cash provided by operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

(g) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, bank balances (including temporary bank overdrafts), term deposits and short-term investments with original maturities of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Stock-Based Benefit Plan

The Corporation records compensation expense in the financial statements for stock options granted to employees, directors and consultants using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period.

(i) Per Share Amounts

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(j) Revenue Recognition

Revenues associated with the sale of crude oil and natural gas are recorded when the title passes to the customer. Revenues from crude oil and natural gas production from properties in which the Corporation has an interest with other producers are recognized on the basis of the Corporation's net working interest. Alberta Royalty Tax Credits are netted against oil and gas royalties.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Amortization	Net Book Value
(000s)	($)	($)	($)
December 31, 2006			
Furniture and equipment	**120**	**60**	**60**
Petroleum and natural gas properties	**67,027**	**22,346**	**44,681**
	67,147	**22,406**	**44,741**
December 31, 2005			
Furniture and equipment	97	44	53
Petroleum and natural gas properties	40,823	12,871	27,952
	40,920	12,915	28,005

Future development costs relating to proved reserves of $10,568,000 (2005 – $2,885,000) have been included in the depletion calculation. The Corporation capitalized $Nil (2005 – $178,000) of general and administrative costs during the year. The Corporation excluded $1,785,000 (2005 – $1,931,000) of undeveloped properties from the depletion calculation as follows:

December 31,	2006	2005
(000s)	($)	($)
Unproven costs		
Land	**1,056**	1,430
Geological and geophysical	**278**	278
Drilling in progress	**451**	223
	1,785	1,931

The Corporation performed a ceiling test calculation at December 31, 2006 to assess the recoverable value of its oil and gas properties. The oil and gas future prices are based on the commodity price forecast of the Corporation's independent reserve evaluators. These prices have been adjusted for heating content, quality and transportation parameters specific to the Corporation. The following table summarizes the benchmark prices used in the ceiling test calculation:

3. PROPERTY AND EQUIPMENT (CONTINUED)

Year	WTI Oil	CDN/US Exchange Rate	Natural Gas Alberta Spot Prices
	($US/bbl)	($)	($CDN/mmbtu)
2007	61.00	0.87	7.15
2008	60.00	0.87	7.72
2009	60.00	0.87	7.70
2010	58.00	0.87	7.68
2011	56.00	0.87	7.83
2012	57.12	0.87	7.99

Escalate thereafter 2.0% per year.

The undiscounted value of future net revenues from the Corporation's proved reserves exceeded the carrying value of the oil and gas properties at December 31, 2006.

4. BANK INDEBTEDNESS

At December 31, 2006, the Corporation had a $10,500,000 (2005 – $5,400,000) revolving line of credit agreement with a Canadian financial institution. The Corporation has a covenant to ensure that its working capital deficiency is not in excess of its lines of credit. The financial institution has agreed the Corporation was not in breach of this financial covenant. At December 31, 2006, bank indebtedness related to the revolving line of credit was $6,328,000. The line of credit bears interest at prime plus 0.25% per annum, secured by the assets of the Corporation, and is due on demand. The effective rate under the increased line was 6.25% (2005 – 5.75%). Subsequent to year-end, a $1,200,000 non-revolving reducing term facility was approved by a Canadian financial institution. This line bears interest at 7.5% and is repayable on demand. The Corporation is required to make blended repayments on the non-revolving reducing term facility of $37,327 per month commencing in February 2007 totaling $411,000 in 2007, $448,000 in 2008, $448,000 in 2009 and $75,000 in 2010.

5. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

December 31,	**2006**	2005
(000s)	($)	($)
Balance, beginning of year	**894**	341
Liabilities incurred in year	**273**	662
Asset retirement costs incurred	**(29)**	(274)
Loss on settlement of asset retirement obligation	**-**	98
Accretion expense	**85**	67
	1,223	894
Less current portion	**262**	–
	961	894

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation is estimated at $3,063,000 (2005 – $1,354,000). The obligation was calculated using a credit adjusted risk-free discount rate of 8% and an inflation rate of 2%. It is expected that this obligation will be funded from the Corporation's general resources at the time the costs are incurred with the majority of costs expected to occur after 2011. No funds have been set aside to settle this obligation.

6. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without nominal or par value.

(b) Issued and Outstanding

	Shares	Amount
(000s)	(#)	($)
Balance, December 31, 2004	23,272	18,159
Issued on exercise of warrants (Note 6(f))	1,808	2,259
Flow-through shares issued (Note 6(d))	4,670	9,190
Share issue costs	–	(380)
Balance at December 31, 2005	29,750	29,228
Issued on exercise of options (Note 6(e))	**165**	**170**
Transfer from contributed surplus	**–**	**178**
Flow-through shares issued (Note 6(d))	**2,000**	**4,200**
Tax effect of flow-through shares [1]	**–**	**(3,090)**
Share issue costs	**–**	**(197)**
Balance at December 31, 2006	**31,915**	**30,489**

(1) Calculated at an effective rate of 33.62% on renounced expenditures.

(c) Per Share Amounts

The following table summarizes the calculation of basic net income and diluted net income per share for the years ended December 31, 2006 and 2005:

Years Ended December 31,	**2006**	2005
(000s, except per share amounts)	($)	($)
Net income available to common shareholders	**627**	930
Weighted average number of common shares outstanding – basic	**30,173**	26,821
Dilutive effect of stock options	**806**	449
Dilutive effect of warrants	**–**	1,219
Weighted average number of common shares outstanding – diluted	**30,979**	28,489
Net income per share		
Basic	**0.02**	0.03
Diluted	**0.02**	0.03

The following securities were excluded from the calculation of diluted net income per share: 2,044,000 options in 2006 and 1,543,000 options and no warrants in 2005.

6. SHARE CAPITAL (CONTINUED)

(d) Flow-Through Share Information

Years Ended December 31,	**2006**	2005
(000s)	($)	($)
Carried forward from prior year	**6,740**	5,000
Amount of flow-through shares issued	**4,200**	9,190
Expenditures incurred	**(7,085)**	(7,450)
Remaining obligation, end of year	**3,855**	6,740

During October and November 2006, the Corporation issued 2,000,000 flow-through shares at $2.10 per share for gross proceeds of $4,200,000.

In February 2005, the Corporation issued 3,000,000 flow-through shares at $1.95 per share for gross proceeds of $5,850,000. In December 2005, the Corporation issued 1,670,000 flow-through shares at $2.00 per share for gross proceeds of $3,340,000.

All flow-through obligations must be fulfilled by December 31, 2007.

(e) Stock Options

The Option Plan allows directors, employees and consultants to be granted incentive based compensation under the Option Plan, while allowing a rolling maximum of 10% of the number of issued and outstanding shares from time-to-time to be granted under the Option Plan. Options may be granted under the Option Plan at an exercise price and vesting provisions as set by the Board of Directors of the Corporation from time-to-time, subject to the limitations of any stock exchange on which the common shares are listed.

As at December 31, 2006, the Corporation had the following stock options outstanding:

	Share Options	Option Price Per Share Range	Weighted Average Exercise Price
	(#000s)	($)	($)
Outstanding at December 31, 2004	1,730	1.00 – 1.15	1.05
Granted	580	1.25	1.25
Outstanding at December 31, 2005	2,310	1.00 – 1.25	1.10
Granted	**709**	**1.65 – 1.80**	**1.65**
Exercised	**(165)**	**1.00 – 1.05**	**1.04**
Outstanding at December 31, 2006	**2,854**	**1.00 – 1.80**	**1.24**

6. SHARE CAPITAL (CONTINUED)

(e) Stock Options (continued)

The following table summarizes information about the stock options outstanding at December 31, 2006 and 2005:

	Options Outstanding			Options Currently Exercisable		
Option Price	Share Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
($)	(#000s)	(Years)	($)	(#000s)	(Years)	($)
2006						
1.00	**130**	**2.4**	**1.00**	**130**	**2.4**	**1.00**
1.05	**1,285**	**3.5**	**1.05**	**1,285**	**3.5**	**1.05**
1.15	**150**	**3.8**	**1.15**	**100**	**3.3**	**1.15**
1.25	**580**	**4.6**	**1.25**	**387**	**4.1**	**1.25**
1.65	**695**	**5.1**	**1.65**	**232**	**4.1**	**1.65**
1.80	**10**	**5.4**	**1.80**	**3**	**4.4**	**1.80**
1.68	**4**	**5.7**	**1.68**	**1**	**4.7**	**1.68**
	2,854	**4.1**	**1.24**	**2,138**	**3.6**	**1.15**
2005						
1.00	195	3.2	1.00	155	2.6	1.00
1.05	1,385	4.4	1.05	923	3.9	1.05
1.15	150	4.8	1.15	100	4.3	1.15
1.25	580	5.6	1.25	194	4.6	1.25
	2,310	4.6	1.10	1,372	3.9	1.08

(f) Warrants

As at December 31, 2006, the Corporation had the following share purchase warrants outstanding:

Issued	Expiry	Warrant Options	Average Price
		(#000s)	($)
Outstanding at December 31, 2004	Aug. & Sep. 2005	2,344	1.25
Exercised		(1,808)	1.25
Expired	Aug. & Sep. 2005	(536)	1.25
Outstanding at December 31, 2005 and 2006		**–**	**–**

The fair value of each warrant was determined at the grant date using the Black-Scholes model assuming a risk-free interest rate of 4.5% and an expected volatility rate of 103%.

7. CONTRIBUTED SURPLUS

December 31,	**2006**	2005
(000s)	($)	($)
Balance – beginning of year	**1,790**	1,107
Stock compensation costs	**836**	683
Transferred to equity instruments	**(178)**	–
Balance – end of year	**2,448**	1,790

8. SHARE PURCHASE LOANS

At December 31, 2006, the Corporation had $48,000 (2005 – $48,000) in share purchase loans recorded as a reduction of shareholders equity.

9. INCOME TAXES

(a) The effective tax rate of income tax varies from the statutory rate as follows:

	2006	2005
(000s)	($)	($)
Combined federal and provincial tax rates	**36.15%**	34.2%
Expected income tax recovery at statutory rate	**(245)**	(739)
Alberta Royalty Tax Credit	**(80)**	(59)
Crown charges	**242**	757
Tax rate changes	**(276)**	229
Resource allowance	**(373)**	(751)
Stock-based compensation	**302**	234
Other	**354**	36
Change valuation allowance	**(1,230)**	(2,797)
Actual income tax recovery	**(1,306)**	(3,090)

(b) At December 31, 2006, subject to confirmation by income tax authorities, the Corporation had the following tax pools available to reduce future taxable income:

December 31,	**2006**	2005
(000s)	($)	($)
Cumulative Canadian development expenses	**20,320**	8,182
Cumulative Canadian exploration expenses	**10,743**	9,918
Cumulative Canadian oil and gas property expenses	**2,781**	1,532
Foreign exploration and development expenses	**8,053**	8,948
Earned depletion	**-**	388
Undepreciated capital cost	**8,318**	4,773
Non-capital losses carried forward for tax purposes expiring in 2014	**1,863**	8,745
Undeducted share issue costs carried forward	**746**	958
	52,824	43,444

The tax benefit of these tax pools in excess of carrying values has only been recognized to the extent of the future tax to be renounced for the flow-through shares issued in 2006. A valuation allowance has been recorded for the remainder as the excess does not meet the test of more likely than not realization.

(c) At December 31, 2006, the Corporation had approximately $1,497,000 (2005 – $1,497,000) of capital losses available that have no expiry date and can be used to reduce future capital gains. The tax benefit of these losses has not been recognized as a future asset as the ultimate realization of the asset value is uncertain.

9. INCOME TAXES (CONTINUED)

(d) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Corporation's future income tax assets and liabilities are as follows:

December 31,	2006	2005
(000s)	($)	($)
Nature of temporary differences		
Property and equipment	**2,473**	3,032
Unused non-capital tax losses carried forward	**583**	2,955
Share issue costs	**231**	305
Unused capital losses carried forward	**117**	126
	3,404	6,418
Valuation allowance	**(2,098)**	(3,328)
Future income tax asset	**1,306**	3,090

10. STOCK COMPENSATION

The Corporation records stock-based compensation expense for all common share options granted to employees, consultants, officers and directors. The total fair value of stock options granted during the year was estimated at $795,000 or $1.12 per option issued (2005 – $502,000 or $0.87 per option issued). During the year, the Corporation expensed $836,000 (2005 – $673,000). The Black-Scholes option pricing model used the following assumptions:

December 31,	2006	2005
Dividend yield	**Nil**	Nil
Expected volatility (%)	**41 – 74**	76
Risk free rate of return (%)	**4.5**	4.5
Weighted average life (years)	**5**	5

11. FINANCIAL INSTRUMENTS

The Corporation carries a number of financial instruments as detailed on the balance sheet. It is management's opinion that the Corporation is not exposed to significant commodity, interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Corporation holds various forms of financial instruments. The nature of these instruments and the Corporation's operations expose the Corporation to fair value, interest rate and industry credit risks. The Corporation manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

The Corporation will be subject to commodity and currency price risk for the delivery of natural gas and crude oil. The Corporation is also subject to interest rate risk with respect to its bank indebtedness as this indebtedness is at floating rate (Note 4).

A significant portion of the Corporation's cash is currently held with the same financial institution and, as such, the Corporation is exposed to concentration of credit risk. Substantially all the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

12. RELATED PARTY TRANSACTIONS

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties. The Corporation had the following related party transactions:

(a) The Corporation incurred consulting fees of $328,000 (2005 – $194,000) to companies controlled by officers of the Corporation for the year ended December 31, 2006.

(b) The Corporation conducts oil and gas exploration and development activities and related transactions with organizations managed or controlled by directors. These transactions are negotiated and conducted using standard industry agreements and terms.

(c) The Corporation incurred legal fees of $55,000 (2005 – $Nil) to a firm in which one of the Corporations' officers was a partner.

(d) Included in general and administrative expenses is $53,000 (2005 – $48,000) paid for directors' fees to independent directors.

(e) Included in other income is $2,400 (2005 – $8,000) of interest charged on the share purchase loans (Note 8).

13. COMMITMENTS

(a) The Corporation has a commitment for an office lease that expires in November 2011 as follows:

	($)
2007	238,000
2008	304,000
2009	304,000
2010	304,000
2011	279,000

(b) The Corporation has entered into employment agreements with its executive officers. In addition to defining the terms of employment, the agreements entitle these executives to compensation on a change of management or control, or for termination without cause. The Corporation has agreed to indemnify certain individuals, who have acted at the Corporation's request to be officers or directors of the Corporation. Payment, if any, as a result of these indemnifications will be recorded in the period that the related payment is made.

(c) The Corporation has an obligation to commence drilling an option well at Tower Creek 11-26 by July 2007. The Corporation's estimated share of this well is $3.8 million. As the well is an exploration well, the expenditures on this well will contribute towards meeting the Corporation's unexpended flow-through obligation.

14. STATEMENT OF CASH FLOWS

(a) Changes in non-cash working capital balances are comprised of the following:

December 31,	**2006**	2005
(000s)	($)	($)
Accounts receivable	**(346)**	(3,920)
Prepaid expenses and advances	**(60)**	(37)
Share purchase loans	**–**	214
Accounts payable and accrued liabilities	**712**	4,359
	306	616
Less amounts related to investing activities	**626**	1,039
Less amounts related to financing activities	**–**	214
	(320)	(637)

(b) In 2006, the cash interest paid was $139,000 (2005 – $188,000).

(c) As at December 31, 2006, the Corporation has $Nil of cash and cash equivalents compared to $1,943,000 of cash plus $2,000,000 in a 21-day term deposit and $1,500,000 in a daily term deposit as at December 31, 2005.

15. SUBSEQUENT EVENT

Subsequent to December 31, 2006, the Corporation issued 838,000 stock options to certain officers, an employee and consultant.

BOARD OF DIRECTORS

Edward C. McFeely (2)(3) – Chairman

Mr. McFeely joined Pacific Amber Resources Ltd. in 2001 as a director and President, and after the company changed its name to Grand Banks Energy Corporation, he was appointed Chairman. In January 2004, Mr. McFeely assumed the role of President and Chief Executive Officer of Grand Banks. Prior thereto, he served as director, Executive Vice-President and Chief Operating Officer of Westlinks Resources Ltd., was co-founder, Chairman, President and Chief Executive Officer of Prize Energy Inc. (now Canadian Superior Energy Inc.) and served in numerous capacities with Saskatchewan Oil and Gas Corporation, ICG Resources Ltd., Peregrine Petroleum Ltd. and Union Oil. Mr. McFeely has over 26 years of experience in the oil and gas business. Mr. McFeely is a Petroleum Engineer and holds a Bachelor of Science degree in Engineering from the University of Alberta.

Thomas S. Bamford (1)(3)

Mr. Bamford has been a member of the Professional Engineering Association of Saskatchewan (APEGS) for more than 30 years after having graduated from the University of Saskatchewan in 1971 with a Bachelor of Science degree in Geological Engineering. After obtaining a Master of Science degree, he joined Saskatchewan Oil and Gas Corporation in 1975, where he held a number of managerial positions. During his tenure with Saskoil, he obtained a Master of Business Administration degree in 1978. After leaving Saskoil in 1995, Mr. Bamford acted as a director of Rockbound Resources Inc. He then joined Westlinks Resources Ltd. where he served as a director, CFO and COO until 2000. Mr. Bamford subsequently joined First Merchants Corporation as an Associate and also served on the board of Industrial Minerals Inc.

Brian H. Gore [2]

Mr. Brian Gore is an independent businessman involved in Pecos Capital Corp., a private investment company, and has over 32 years of experience with public resource companies. Previously, he was Chairman and Chief Executive Officer of Pivotal Energy Ltd. as well as held various executive positions with Cigar Oil & Gas Ltd., Barrington Petroleum Ltd. and Renaissance Energy Ltd. Mr. Gore is a professional Landman, holds a Bachelor of Business Administration degree from the University of Oklahoma and is a member of CAPL.

Kenneth H. Hayes [1][2][3]

Mr. Hayes has approximately 35 years of diverse experience in the oil and gas sector. Mr. Hayes is the founder and Chief Executive Officer of Wilderness Energy Corp., a private company engaged in oil and gas exploration in Western Canada and internationally. Prior thereto, he was a founder, President and Chief Executive Officer of Cometra Energy (Canada) Limited and Canrock Pipelines Ltd. Mr. Hayes is a Professional Geologist, holds an M.Sc. (Geology) and is a member of APEGGA.

W.J. (Bill) McNaughton [1]

Mr. McNaughton is an independent businessman involved in financial and investor relations advisement assignments. Previously, he was an Associate with Sayer Securities Limited, President of Sterling Energy Limited and acted as Vice-President, Finance for Pancana Resources Limited and Tricentrol Oils Limited. Mr. McNaughton is a chartered accountant with 30 years experience in the oil and gas industry. He holds a Bachelor of Commerce degree from the University of Saskatchewan and is a member of the Canadian Institute of Chartered Accounts.

(1) Audit Committee Member
(2) Compensation Committee Member
(3) Reserves Committee Member

CORPORATE INFORMATION

Board of Directors

Edward C. McFeely (2)(3)
Chairman of the Board
President & Chief Executive Officer
Grand Banks Energy Corporation

Thomas Bamford (1)(3)
Independent Businessman

Brian H. Gore (2)
Independent Businessman

Kenneth H. Hayes (1)(2)(3)
Chief Executive Officer
Wilderness Energy Corp.

W.J. (Bill) McNaughton (1)
Independent Businessman

(1) Audit Committee Member
(2) Compensation Committee Member
(3) Reserves Committee Member

Officers

Edward C. McFeely
President & Chief Executive Officer

Keith Wilford, P.Eng.
Vice President Operations

David Eskesen
Vice President Land

George Hassler, P.Geol.
Vice President Exploration

Shawn McDonald, B.Com.,LL.B.
Chief Financial Officer

Andrew D. Grasby, LL.B.
Corporate Secretary
McCarthy Tetrault LLP

Head Office

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Fax: (403) 262-8796
E-Mail: infogbe@grandbanksenergy.com
Website: www.grandbanksenergy.com

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Deloitte & Touche LLP

Banker

ATB Financial

Legal Counsel

McCarthy Tetrault LLP

Evaluation Engineers

Paddock Lindstrom & Associates Ltd.
McDaniel & Associates Consultants Ltd.

Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Computershare Trust Company of Canada
Suite 600, 530 Eighth Avenue S.W.
Calgary, Alberta T2P 3S8
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TSX Venture Exchange
Trading Symbol: GBE

left to right
Keith Wilford
Diane Park
Jean Sharp
Chelsey Weiler
George Hassler
Ted McFeely
Jacky Ross
David Blain
Shelley Sammartino
Shawn McDonald

Abbreviations

bbl	barrel
bbls/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbtu	million British Thermal Units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
3-D	three dimensional

Conversion of Units

1.0 acre	= 0.40 hectares
2.5 acres	= 1.0 hectare
1.0 bbl	= 0.159 cubic metres
6.29 bbls	= 1.0 cubic metre
1.0 foot	= 0.3048 metres
3.281 feet	= 1.0 metre
1.0 mcf	= 28.2 cubic metres
0.035 mcf	= 1.0 cubic metres
1.0 mile	= 1.61 kilometres
0.62 miles	= 1.0 kilometres

Natural gas is equated to oil on the basis of 6 mcf = 1 bbl

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